

Message Text

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C O N F I D E N T I A L ROME 14239

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SUBJECT: ITALY: POLITICAL AND ECONOMIC TRENDS

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REF: STOESSEL/VOLPE LETTER OF DEC 4, 1973

1. SUMMARY: THERE IS A BASIC STABILITY IN ITALY'S FOREIGN POLICY AND THE HANDLING OF DOMESTIC PROBLEMS. THE ENERGY CRISIS WILL IMPACT SUBSTANTIALLY ON THE ECONOMY AND COULD STOP GROWTH. BOTH THE ENERGY CRISIS AND THE MIDEAST WAR HAVE HAD THE EFFECT OF INCREASING ITALY'S "EUROPEAN" EXPERIENCE AND ATTITUDES. UNITY IS THE THEME; IN ITALY'S EC RELATIONSHIPS, WITHIN THE COALITION AT HOME, AND WITHIN THE FRAGMENTED ITALIAN LABOR MOVEMENT. THE TENDENCY TO ACCEPT THE INEVITABILITY OF THE DIVORCE REFERENDUM (IN SPRING OF 1974) REDUCES LIKELIHOOD OF COALITION DISAGREEMENT ON THE ISSUE, AND THEREBY REDUCES LIKELIHOOD OF EARLY NATIONAL ELECTIONS. THERE IS NO CREDIBLE ALTERNATIVE TO PRESENT GOVERNING FORMULA IN CURRENT PARLIAMENT, HOWEVER, AND SEVERE ECONOMIC CRISIS WOULD PUT GOVT UNDER PRESSURE DIFFICULT TO WITHSTAND. ONLY CERTAINTY IN SUCH CIRCUMSTANCES IS THAT THE LEFT ELEMENTS WOULD BE FORCED TO TAKE MORE MILITANT STAND, WITHIN LIMITS IMPOSED BY FEARS OF A RIGHT-WING REACTION. END SUMMARY.

2. POLITICAL: ITALY REMAINS A COUNTRY WHERE NOTHING CHANGES QUICKLY, AND WHERE THE PROBLEMS ARE SO TRADITIONAL THEY WOULD, IF RESOLVED, BE ALMOST MISSED. STABILITY IN ITALY'S ATLANTIC AND EC ORIENTED FOREIGN POLICY SINCE WORLD WAR II REFLECTS THE FACT THAT THE POLICY CONTINUES TO MEET ITALY'S NEEDS. THIS BOTH PERMITS AND CONFIDENTIAL

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ENCOURAGES THE ITALIAN MAN IN THE STREET TO LOOK MORE TO HIS DOMESTIC THAN TO HIS FOREIGN PROBLEMS. IN THIS, HOWEVER, WE SEE THE BEGINNINGS OF CHANGE.

3. THE GRADUAL DEVELOPMENT OF EC INSTITUTIONS POINTING TOWARD A EUROPEAN UNITY WHICH THE ITALIANS SUPPORT, AT THE INTELLECTUAL LEVEL, HAS PREPARED THE WAY FOR A MORE BROADLY BASED RECOGNITION OF ITALY'S FUNDAMENTALLY EUROPEAN IDENTITY. THIS SLOW DEVELOPMENT OF ATTITUDES HAS BEEN FORCED ALSO BY THE INCREASINGLY REAL PROBLEM OF WHAT IS SEEN HERE AS AN EVENTUAL INEVITABLE WITHDRAWAL OF THE US FROM EUROPE.

4. IN THESE CIRCUMSTANCES THE RENEWED HOSTILITIES IN THE MIDEAST HAD THE TWIN CONSEQUENCES OF CALLING INTO QUESTION ITALY'S TRADITIONALLY CLOSE RAPPORT WITH THE US, AND THE SHARING, WITH ITALY'S EC PARTNERS, OF THE ARABS' DISPLEASURE AND ENERGY SEQUEEZE. THE STIMULUS TO FEEL "EUROPEAN" HAS BEEN LONG A-BUILDING, AND WE SUSPECT IRREVERSIBLY AUGMENTED BY THE OCTOBER EVENTS AND THEIR AFTERMATH. THIS DOES NOT MEAN THAT ITALY'S STRONG TIES WITH THE US WILL LAPSE. IT DOES PUT A STAMP OF PERMANENCE, HOWEVER, AND AN ADDED DEGREE OF URGENCY ON ITALY'S EUROPEAN DIRECTION.

5. ECONOMIC: THE CURRENT ECONOMIC RECOVERY, FUELED BY RELATIVE LABOR PEACE AND A DEGREE OF RENEWED CONFIDENCE LINKED TO THE PERFORMANCE OF THE CENTER-LEFT GOVT, IS SERIOUSLY THREATENED BY THE OIL SHORTAGE. THE PETROLEUM PROBLEM WILL ALSO AGGRAVATE INFLATION AND ADD TO THE ALREADY DIFFICULT BALANCE OF PAYMENTS SITUATION IN THE COMING MONTHS. IF THE PRESENTLY ENVISAGED 20 PCT OIL CUTBACK CONTINUES THROUGHOUT 1974, THIS COULD STOP GROWTH IN ITS TRACKS, INCREASE UNEMPLOYMENT TO ABOUT A MILLION (A 50 PCT RISE), ACCELERATE INFLATION TO AROUND 15 PCT (ANNUAL RATE) AND INCREASE THE 1974 BALANCE OF PAYMENTS DEFICIT BY \$1.5 TO 2.0 BILLION. A WORSENER BALANCE OF PAYMENTS DEFICIT COULD LEAD TO A SEVERE DECLINE IN THE LIRA EXCHANGE RATE, ADDING FURTHER TO INFLATIONARY PRESSURES.

6. THE INFLATION AND UNEMPLOYMENT RATES WOULD NOT BE POLITICALLY TOLERABLE UNDER NORMAL CONDITIONS, AND COULD PUT THE RUMOR GOVT UNDER CONSIDERABLE PRESSURE TO TILT TOWARD THE ARABS. ITALY'S
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COMMITMENT TO EC SOLIDARITY, ITS TIES WITH THE US, AND ITS HOPE THAT THE OIL SITUATION WILL SOMEHOW IMPROVE HAVE KEPT THE GOI FROM CAPITULATING TO THE ARAB OIL SUPPLIERS. AS LONG AS THE EC MAKES SOME EFFORT AT A COMMON ENERGY POLICY (AS DECIDED AT THE COPENHAGEN SUMMIT) AND THE PAIN OF THE OIL SHORTAGE IS TO SOME EXTENT COLLECTIVELY SHARED, WE EXPECT THE ITALIANS WOULD ACCEPT SOME ECONOMIC DAMAGE RATHER THAN BREAK RANKS WITH THE US AND THE COMMUNITY.

7. LABOR: EARLIER EFFORTS OF THE THREE MAJOR ITALIAN UNIONS TO UNIFY FOUNDERED ON THE CONVICTION THAT UNITY WOULD BE TANTAMOUNT TO DOMINATION OF THE LABOR MOVEMENT BY THE COMMUNIST CONTROLLED CGIL. IN RECENT MONTHS, HOWEVER, AN UNMISTAKABLE TREND TOWARD EFFECTIVE OPERATIONAL UNITY HAS MATERIALIZED, THROUGH THE AGENCY OF THE LOOSE CONFEDERATION OF THE THREE UNIONS WHICH WAS ESTAB-

LISHED IN LARGE PART AS A COSMETIC ALTERNATIVE TO THE UNWANTED FULL UNIFICATION. CONCURRENTLY, THE CGIL HAS TAKEN STEPS TO DIS-ENGAGE SOMEWHAT FROM THE WFTU AND SEEK ASSOCIATION WITH THE WESTERN EUROPEAN LABOR MOVEMENTS. WE SEE THE TREND TOWARD ITALIAN LABOR UNITY, ABETTED BY THE CURRENT CGIL AND COMMUNIST TACTICS TO AVOID MILITANCY AND ADOPT A MORE WESTERN EUROPEAN COLORATION, AS A SIGNIFICANT DEVELOPMENT WITH GOOD CHANCES FOR ACCEPTANCE OVER TIME, ALTHOUGH CERTAIN TO CAUSE TENSION WITHIN THE CISL AND UIL.

8. CONCLUSIONS: THE ABOVE TRENDS AND PROBLEMS NOTWITHSTANDING, WE EXPECT A CONTINUATION OF ITALY'S TRADITIONAL MAJOR FOREIGN POLICY THRUSTS: NATO, THE EC, AND A CONTINUING CLOSE RELATIONSHIP WITH THE US. DOMESTICALLY, THE ENERGY CRISIS BECOMES THE CURRENT REASON - THIS TIME A GOOD ONE - FOR STAGNATION IN THE LEGISLATIVE PROGRAM OF REFORM. SO FAR, THE RUMOR GOVT AND THE RENEWED CENTER-LEFT FORMUL, HAS ENJOYED THE BENEVOLENCE OF THE UNIONS AND THE LEFT OPPOSITION. THE DIVORCE REFERENDUM DUE IN THE LATE SPRING OF 1974, HAS BEEN CONSIDERED A MAJOR THREAT TO INTERNAL PARTY AND COALITION HARMONY. HOWEVER, IT HAS BEEN AROUND SO LONG THAT IT HAS LOST ITS INITIAL TERRORS, AND - AS A FINAL REPORTABLE TREND - WE SEE A TENDENCY TOWARD ACCEPTANCE OF THE INEVITABILITY OF THIS POLITICAL TEST, AND AN EXPECTATION THAT IT WILL BE HELD BETWEEN APRIL AND JUNE 1974.

9. DESPITE THE ECONOMIC AND POLITICAL PROBLEMS, THE COALITION PARTNERS SHOW A WILL TO ACCOMMODATE TO EACH OTHER IN SUPPORT OF
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THE PRESENT GOVT AND THE COALITION FORMULA. A FACTOR IN THIS WILL TO COOPERATE IS THE LACK OF CREDIBLE ALTERNATIVES SHORT OF EARLY ELECTIONS FOR A NEW PARLIAMENT; A PROSPECT WITH NO SOLUTION FOR THE CURRENT PROBLEMS. IT IS OBVIOUS, NEVERTHELESS, THAT SEVERE DETERIORATION OF THE ECONOMY BECAUSE OF THE ENERGY CRISIS AND A CONSEQUENT LARGE INCREASE IN UNEMPLOYMENT WOULD PUT THE GOVT IN DIFFICULTY, WITH UNPREDICTABLE CONSEQUENCES. A FIRST EFFECT OF SEVERE ECONOMIC DIFFICULTY WOULD BE TO FORCE THE LEFT WING OPPOSITION TO ADOPT A MORE MILITANT AND FULLY ANTI-GOVT LINE, TEMPERED ONLY BY COMMUNIST FEARS THAT PUSHING TOO HARD WOULD PRODUCE A REACTION TO THE RIGHT; A REACTION THAT THE LEFTWING DOES NOT WISH TO PROVOKE. VOLPE

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